

HR Weekly Podcast

9/17/2008

Today is September 17, 2008, and welcome to the HR Weekly Podcast from the State Office of Human Resources. Today's topic concerns the true cost of employee turnover.

One of the most critical issues for HR, and specifically for workforce planning efforts, is the retention of employees. Of particular concern is the retention of high performing employees.

A metric to help monitor retention in the workforce is to look at turnover rates. Overall turnover rates are a broad indicator for an employer. Turnover of high performers may be a more strategic measurement. Or, turnover of employees within their first twelve months of employment might be another more strategic measurement that identifies, at least in part, how well an employer is doing with onboarding.

Another measurement that is important to retention is the cost of turnover. While turnover is obviously costly, experts argue over how to cost turnover to establish the true cost of turnover. In fact, employers can choose to measure their turnover costs in any number of ways.

Jac Fitz-enz, who is a recognized expert in HR metrics, has developed and tested a standard formula for calculating turnover. That formula includes the cost of termination, replacement, vacancy, and learning curve productivity cost.

William G. Bliss, who is an HR consultant, outlines what he suggests needs to be included in the calculation of turnover costs. As to the costs due to a person leaving, Bliss suggests that employers need to consider:

- The cost of the person, either a temporary or an existing employee, who fills in while the position is vacant.
- The cost of lost productivity, which would be a minimum of 50% of the separating person's total payroll costs.
- The cost of conducting an exit interview, including HR's and the employee's time and the administrative costs of changes to payroll and benefits.
- The cost of the manager who has to understand what work remains and how to cover that work until a replacement is found.
- The cost of training that the employer invested in the separating employee.
- The impact on departmental productivity resulting from the employee's leaving.

Bliss also suggests that, in addition to these costs due to a person leaving, there are a number of factors that an employer should consider relative to recruitment costs, training costs for the replacement employee, lost productivity costs during the replacement employee's learning curve, and new hire costs. When all of these factors are considered, the true cost of turnover is more apparent.

Some experts suggest that the average cost of turnover is approximately 150% of the salary of the employee who separates. For example, if an employee leaves who is earning \$50,000 annually, the average turnover cost for that employee would be \$75,000 when all the factors associated with the separation and replacement are considered. Depending on the number of employees included in the turnover, that figure obviously can grow rapidly.

In South Carolina state government, the average salary for all employees is \$44,744. Applying the 150% calculation, the cost of turnover for an average state employee would be \$67,116. During the period of time from July 1, 2007, through June 30, 2008, the average turnover rate for state government's 64,258 state employees was 14.06%, or 9,039. Assuming the average cost of turnover at \$67,116 for these 9,039 employees, the cost of turnover during this period of time could total over \$600 million. Turnover rates in varying dimensions, statewide and by individual agencies, are available on OHR's website.

Recognizing how costly turnover truly can be, the South Carolina state government HR community needs to emphasize the importance of selecting and, then, retaining the best candidates for state government vacancies. If you have questions about the true cost of turnover, please call your HR consultant at 803-737-0900.

Thank you.